

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

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FM AMEMBASSY TEL AVIV

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C O N F I D E N T I A L TEL AVIV 6356

E.O. 11652: GDS

TAGS: EFIN, IS

SUBJECT: ISRAEL'S FOREIGN EXCHANGE RESERVES

REF: TEL AVIV 5968 AND A-156 OF 6/26/74

1. MAGNITUDE OF FOREIGN EXCHANGE RESERVES AVAILABLE TO ISRAEL HAS ALWAYS BEEN DIFFICULT TO DETERMINE. QUESTION REVOLVES AROUND DEFINITION OF OFFICIAL RESERVES, I.E., WHETHER TO INCLUDE WORKING CAPITAL HELD ABROAD BY GOI, NON-RESIDENT DEPOSITS IN ISRAELI BANKS, AND WHAT PORTION, IF ANY, OF THESE BANKS' LARGE FOREIGN CURRENCY ASSETS. GOI OFFICIALS HAVE TENDED TO MINIMIZE IMPORTANCE OF ANY FOREIGN CURRENCY HOLDINGS BEYOND FORMAL RESERVES HELD BY BANK OF ISRAEL.

2. WE HAVE NOTED, HOWEVER, THAT IN DISCUSSIONS ABOUT ISRAEL'S CREDIT WORTHINESS, BANKERS AND ECONOMISTS TAKE LARGER VIEW OF TOTAL SUPPLY OF FOREIGN CURRENCY AVAILABLE TO PAY COMMITMENTS IN FOREIGN EXCHANGE. FOR EXAMPLE, IN SPEECH IN LONDON LAST JUNE 10, BANK HAPOALIM CHAIRMAN LEVINTO SAID THAT QUOTE ABILITY TO PAY IS CONSIDERABLY LARGER THAN WHAT MIGHT BE EXPECTED FROM THE FIGURES OF THE BALANCE OF PAYMENTS

AND THE STATED FOREIGN EXCHANGE RESERVES OF THE BANK OF
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ISRAEL. THERE IS, IN FACT, LARGER SECONDARY RESERVE WHICH

FINDS EXPRESSION IN THE FOREIGN CURRENCY ASSETS OF THE ISRAELI BANKING SYSTEM IN ISRAEL AND ABROAD. THIS SECONDARY RESERVE CAN PROVIDE ADEQUATE CURRENT FINANCING OF THE INTERNATIONAL TRADE OF ISRAEL AS WELL AS THE FINANCE OF TRANSFER PAYMENTS OF VARIOUS TYPES....THE LIQUIDITY RESERVES OF THE STATE OF ISRAEL IN FOREIGN EXCHANGE REACH CONSIDERABLY BEYOND ITS FORMAL RESERVES. UNQUOTE.

3. WE CAN ESTIMATE PROPORTIONS OF THIS QUOTE SECONDARY RESERVE UNQUOTE FROM THE BOI'S BANKING STATISTICS, VOL XIV, JUNE 1975. THIS OFFICIAL DOCUMENT STATES THAT QUOTE TOTAL ASSETS IN FOREIGN CURRENCY HELD BY ISRAELI COMMERCIAL BANKS UNQUOTE ON JUNE 30, 1975 AMOUNTED TO 35 BILLION POUNDS, OR NEARLY \$6 BILLION AT RATE OF EXCHANGE ON THAT DATE. AN ISRAELI BANKER RECENTLY TOLD US THAT QUOTE SOME 40 PERCENT OF ASSETS OF MAJOR BANKS IN ISRAEL IS IN FOREIGN CURRENCY. UNQUOTE.

4. COMMENT: WHILE ASSETS OF BANKING INSTITUTIONS ARE MATCHED BY LIABILITIES, MAJOR PART OF FOREIGN CURRENCY ASSETS HELD BY BANKS IS HIGHLY LIQUID. THESE LARGE ASSETS WOULD SEEM TO PROVIDE IMPORTANT BACKSTOP TO FORMAL RESERVES HELD BY BANK OF ISRAEL. EVEN IF QUOTE SECONDARY RESERVE UNQUOTE WERE DEEMED TO CONSIST ONLY OF NON-RESIDENT DEPOSITS, SOME \$850 MILLION WOULD NOW BE AVAILABLE IN ADDITION TO \$1.2 BILLION IN FORMAL RESERVES REPORTED BY BANK OF ISRAEL AT END OF AUGUST. TOON

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